

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 2876-01
BILL NO.: HB 1329
SUBJECT: Revenue Department; Taxation and Revenue - General; Taxation and Revenue - Sales and Use.
TYPE: #Corrected
DATE: January 31, 2000
Corrected due to computational error

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
#General Revenue	(\$485,000)	\$596,513	\$890,669
Local Revenue Replacement Fund	\$0	\$0	\$0
#Total Estimated Net Effect on <u>All</u> State Funds*	(\$485,000)	\$596,513	\$890,669

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
#Local Government*	\$0	(\$20,383,700)	(\$15,694,800)

* This proposal is permissive. Voter approval would be required before fiscal impact would be realized.

Numbers within parentheses: () indicate costs or losses

This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Elementary and Secondary Education (DESE)** state under this proposal, the following issues would be put to a vote of the people in November, 2000:

- (1) Limit the amount of federal income taxes paid which may be taken as a deduction for purposes of computing Missouri state income tax liability. This will increase income tax liabilities for some Missouri taxpayers;
- (2) Exempt sales of food from local option sales tax;
- (3) Create the "Local Revenue Replacement Fund". Additional revenue attributable to the limitation on federal deductibility is to be deposited into the Local Revenue Replacement Fund, less 2% for administration purposes. Revenues lost by local political subdivisions from the exemption on food sales are to be replaced by revenues from the Local Revenue Replacement Fund.

The DESE assumes this proposal will have no fiscal impact on their agency.

Officials from the **Department of Revenue (DOR)** state this proposal eliminates the local sales tax on food and attempts to replace the lost revenue to political subdivisions by limiting the Federal Income Tax (FIT) deduction for individuals to \$3,300 for a single return and \$6,600 for a combined return. The DOR state they would be responsible for computing this loss for each political subdivision and using funds collected from this reduced federal tax deduction to replace and subsequently disburse these funds. The DOR states that to administer this system and distribute these funds, they will need to modify its present income tax system to account for total revenues from the decreased FIT deduction, and create another new system to properly distribute these amounts. Three Tax Processing Technicians are needed for system maintenance, taxpayer interface, correspondence, and other duties.

DOR officials also state that the political subdivisions will suffer a one year or more lag between the loss of sales tax revenue on food sales and receiving funds from the Local Revenue Replacement Fund because of the annual filing requirements for income tax returns. They also state that another calendar quarter lag could result from computing the loss from sales tax returns and the distribution of the funds to the political subdivisions.

Oversight assumes the DOR will require the three Tax Processing Technicians starting in FY 2002 and that additional floor space will not be necessary. Oversight also assumes the

ASSUMPTIONS (continued)

programming changes would be started and completed in FY 2002.

#Officials from the **Office of Administration, Budget and Planning** estimated the revenue impact of both the food exemption from sales tax and the increased income tax revenue from the decrease in federal income tax deduction. The reduction in sales tax revenue is estimated to be \$0 in FY 2001, \$124.43 million in FY 2002, and \$126.92 million in FY 2003, based on an average local sales tax rate of 1.5 percent. The increase in income tax revenue from the decreased federal income tax deduction is estimated to increase revenue to the state by \$0 in FY 2001, \$104.9 in FY 2002, and \$112.2 million in FY 2003.

#**Oversight** assumes, pending voter approval in November, 2000, the effective date of the sales tax exemption for food on local sales taxes will be July 1, 2001 (FY 2002). The corresponding effective date of the decrease in federal income tax deduction would occur for all tax years beginning on or after January 1, 2001, which would be realized by the state on returns filed starting January 1, 2002 (FY 2002).

Officials from the **Department of Higher Educations** state this proposal will not fiscally impact their agency, but did state that this proposal may trigger additional Hancock Amendment refunds as a result of the increased income tax revenue.

The **State Treasurer's Office** and the **State Tax Commission** assume this legislation will not fiscally impact their agencies.

Advertisement costs for the proposal would be \$4,380 per newspaper column inch for three publications of the text of the proposal, the introduction, title, fiscal note summary, and affidavit. The proposal would be on the ballot for the November 2000 general election.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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GENERAL REVENUE FUND

<u>Costs - Secretary of State</u>			
Newspaper Advertisements	(\$485,000)	\$0	\$0

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2001 (10 Mo.)	FY 2002	FY 2003
<u>Costs - Department of Revenue</u>			
Personal Service (3 FTE)	\$0	(\$62,029)	(\$63,580)
Fringe Benefits	\$0	(\$19,074)	(\$19,551)
Expense and equipment	\$0	(\$11,220)	(\$1,000)
Programming changes	\$0	(\$164,864)	\$0
Total <u>Costs</u> - DOR	<u>\$0</u>	<u>(\$257,187)</u>	<u>(\$84,131)</u>
<u>Loss - General Revenue Fund</u>			
Loss of 1% collection fee on sales tax revenue on food.	\$0	(\$1,244,300)	(\$1,269,200)
<u>#Revenue - General Revenue Fund</u>			
Revenue from decreased FIT deduction.	\$0	\$104,900,000	\$112,200,000
<u>#Cost - General Revenue Fund</u>			
Transfer to Local Revenue Replacement Fund (revenue less a 2% administration fee)	\$0	(\$102,802,000)	(\$109,956,000)
#ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$485,000)</u>	<u>\$596,513</u>	<u>\$890,669</u>

-SUBJECT TO APPROPRIATION-

LOCAL REVENUE REPLACEMENT FUND

<u>#Income</u> - Transfers from the General Revenue Fund	\$0	\$102,802,000	\$109,956,000
<u>#Costs</u> - Distributions to the Local Political Subdivisions	<u>\$0</u>	<u>(\$102,802,000)</u>	<u>(\$109,956,000)</u>
NET EFFECT ON LOCAL REVENUE REPLACEMENT FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

-SUBJECT TO APPROPRIATION-

FISCAL IMPACT - Local Government

FY 2001 FY 2002 FY 2003
 (10 Mo.)

POLITICAL SUBDIVISIONS

Costs - Lost Revenue from

sales tax exemption on food

\$0 (\$123,185,700) (\$125,650,800)

#Income - Distributions from the Local

Revenue Replacement Fund

\$0 \$102,802,000 \$109,956,000

**#NET EFFECT ON POLITICAL
 SUBDIVISIONS**

\$0 (\$20,383,700) (\$15,694,800)

FISCAL IMPACT - Small Business

Small businesses who sell certain foods would be expected to be fiscally impacted to the extent that they would no longer collect and pay sales tax on these items. Small businesses who would purchase food would pay less for such items.

DESCRIPTION

Under current law, certain food types are taxable for local sales tax purposes. This proposal exempts these food types from all local sales taxes imposed by political subdivisions. This portion of the proposal will become effective on July 1 following the passage of the bill by the voters of the state.

This proposal also reduces the maximum federal income tax paid deduction allowed for individuals for state income tax purposes. The maximum individual income tax deduction for federal income taxes paid will be reduced from \$5,000 for a single taxpayer and \$10,000 for married taxpayers to \$3,300 and \$6,600 respectively. This portion of the bill will become effective January 1 following the passage of the bill by the voters of the state.

All state revenue received from the reduction of the federal income tax deduction on individuals will be deposited into an account to be known as the Local Revenue Replacement Fund. Moneys in this fund will be disbursed to political subdivisions in an amount necessary to replace the lost revenues of the political subdivisions as a result of the local sales tax exemption on the sales of certain food types. The fund and disbursement of the moneys will be administered by the Department of Revenue.

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DESCRIPTION (continued)

This bill also holds harmless deposits into the Outstanding Schools Trust Fund.

This bill contains a referendum clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
 Budget and Planning
State Treasurer's Office
State Tax Commission
Department of Higher Education
Department of Elementary and Secondary Education



Jeanne Jarrett, CPA
Director
January 31, 2000